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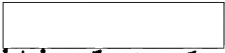

MEMORANDUMSTEEL: AN UNRESOLVED ISSUE FOR THE OECD 

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Summary

Despite numerous plans to alleviate the widespread problems of the steel industry, national trade and production policies remain contentious issues among major Organization for Economic Cooperation and Development (OECD) suppliers. The European Community (EC) countries suspect that the US is trying to dictate OECD steel policy and, at the same time, erect higher import barriers. In private, Japan opposes any OECD action that would increase barriers to steel trade. Given the deepest economic problems of the industry, OECD agreement on major new initiatives is unlikely in the foreseeable future. 

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This memorandum was written by  International Issues Division, Office of Political Analysis. It was coordinated within the Office of Political Analysis and with the Office of Economic Research. It was requested by the Office of Intelligence Liaison, Dept. of Commerce for use by Luther Hodges, Deputy Secretary of Commerce. Comments and queries are welcome and may be addressed to Chief, Political Economic Branch, International Issues Division, OPA, 

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The EC

The EC Commission opposes OECD attempts to determine international steel policies, in large part because they believe the US is trying to dominate the issue. EC Commission opposition to OECD involvement has a long history. It was against the OECD steel committee because it reflected international -- read the US -- interference in what the EC saw as a internal problem. Initially, the EC Commission saw the OECD committee as a method for Washington to push for lower EC import barriers, perhaps with the help of Tokyo. As the Davignon Plan demonstrates, the EC believes that with time, short term import barriers, judicious use of employment policies, and cuts in subsidies, individual members can solve problems in the EC steel industries without another international bureaucracy. [REDACTED]

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Even with the OECD Steel Committee now in place and the Davignon Plan two years old, the EC's opposition to an OECD-wide steel forum remains. Many EC members believe OECD steel policy lacks direction. They wonder, for example, how the US will square higher import barriers -- which the EC sees as coming -- with the original free trade principles of the Committee which Washington pushed hard for. [REDACTED]

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Despite the existence of the Davignon Plan, individual EC countries disagree among themselves on a number of steel issues. Paris and London have strong programs to trim steel-making capacity and to retrain and relocate redundant workers. Similar to the EC Commission position, both want time to make the adjustment. The French government has maintained its policy, even in the face of labor opposition. British Prime Minister Thatcher wants to limit subsidies to the British industry; her final position may be adjusted by a continuing dropoff in steel consumption -- estimated [REDACTED] at a 12% decline in January-June 1980 -- and the outcome of the steel strike. [REDACTED]

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West Germany's views on the global steel situation are sharply different. Bonn has pushed for cuts in EC assistance to the industry, a position opposed by Italy, and to a lesser degree, Britain. The government has kept official involvement in industry assistance to a minimum. Unlike the EC Commission, Bonn sees the OECD

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[REDACTED]

Committee as a threat to freer trade in steel. Bonn fears that the Committee might attempt to cartelize the industry, particularly if it allowed newly industrialized countries like Brazil and South Korea to participate in the committee. [REDACTED]

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Japan

Similar to the EC, Japan would like to rein in the OECD steel committee. In private, Tokyo opposes international steel agreements that permit (a) subsidies to uncompetitive steel industries and (b) prohibitive import barriers. In practice, Japan tends to support market sharing plans for steel such as;

- voluntary quotas on shipments to the EC;
- bilateral agreements on exports to several countries;
- orderly marketing agreements on selected product lines such as specialty steel; and
- trigger price systems.

Tokyo believes that these agreements represent a loss-limiting exercise; the government argues that unilateral action by importing countries would likely be more severe and could spill over into other trade areas. [REDACTED]

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Reaction to US Policies

Most OECD producers believe US actions over the past few years have inhibited progress on the steel problem. The EC is particularly sensitive to the US trigger price system and to US dumping investigations. The EC believes that Washington's recent hike of minimum import prices resulted from substantial pressure on the US industry during an election year. According to a story leaked to the European press the EC is willing to restrict exports to the US over the next 6-12 months if US firms drop dumping charges against EC producers and if the US trigger price is not increased. The Commission denies this story. Even so, EC officials believe that higher minimum prices will sharply curtail hoped for export gains in the US market in 1980. [REDACTED]

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Resentment also lingers in several capitals over how hard the US pressed for the appointment of Alan Wolff (former Deputy STR) as Chairman of the OECD Steel Committee, only to have him resign later. No member of the Committee -- except the US -- favored expanding the meetings to include LDCs such as South Korea and Brazil. Although the US has officially dropped the proposal, the EC does not believe the issue is dead. []

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Outlook

Steel will remain a contentious issues among OECD members. Despite substantial efforts to cutback on production facilities, OECD producers remain saddled with surplus capacity. Because a number of members face elections in the next 18 months, leaders will be reluctant to take such new, unpopular actions as further cuts in subsidies or lower import barriers. []

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